Q1

Please show us how much unprofitable projects affected the entire company and each segment in terms of value in the fiscal year ended March 31, 2020 (“FY2019”).

A1

In FY2019, the amount of full-year losses of the entire company from unprofitable projects was 10.3 billion yen. Most of these unprofitable projects were attributable to the Public & Social Infrastructure Segment and the Financial Segment; the former recorded losses of 4 billion yen and the latter 5.3 billion yen.

The amount of losses of the entire company accumulated to 12.1 billion yen in the third quarter. As the large-scale unprofitable project at the Public & Social Infrastructure Segment went smoothly, we reversed losses in the fourth quarter. As a result, the accumulated amount of losses from unprofitable projects of the Segment decreased to 4 billion yen on a full-year basis from 5.8 billion yen in the third quarter. For the full-year losses from unprofitable projects, the Financial Segment, the Enterprise and Solutions Segment, and others recorded 5.3 billion yen, 0.6 billion yen, and 0.4 billion yen, respectively. With regard to the large-scale unprofitable projects of the Public & Social Infrastructure Segment and the Financial Segment, which have caused your concerns, the Public & Social Infrastructure Segment’s project seems to have come near completion and is going steadily so that we could reverse losses. The loss from the Financial Segment’s unprofitable project has not exceeded the amount we allowed in the third quarter. We expect that we can complete it by keeping this pace.

Q2

Please show us respectively, the special factors and the other factors behind the decreased operating income of the EMEA & LATAM Segment.

A2

The structural transformation cost about 10 billion yen, which was almost as expected at the beginning of the fiscal year. In addition, we recorded additional structural transformation expenditures of 4 billion yen in the fourth quarter as a result of the review and screening of businesses with low profitability of everis’ divisions in charge of creating and incubating new businesses in order to improve profitability in the future. We recorded an allowance for doubtful accounts, which generated operating expenses of 5 billion yen, although it was a temporary event, as there was a probability that the business for driving schools in Brazil rolled out by a subsidiary of everis would fail due to various external factors. For this project, we recorded an additional allowance for doubtful accounts because we provided funds to help a local business partner continue its business, which generated financial expenses of 7 billion yen. Thus, this one Brazilian project generated operating and non-operating expenses of 12 billion yen in total.

Q3

Will the full structural transformation costs of 10 billion yen for the EMEA & LATAM Segment, which was projected at the beginning of the fiscal year, contribute to an increase in operating income in the fiscal year ending March 31, 2021 (“FY2020”)?

A3

Most of the structural transformation costs of 10 billion yen that we estimated at the beginning of the fiscal year were supposed to be used for responses to digital transformation, specifically, acquisition and development of digital human resources and the early retirement program. We will continue to acquire and develop digital human resources, refine digital offerings, automate development processes, and improve the operational efficiency in FY2020, while we have nearly completed the early retirement program. However, we will take flexible approaches depending on the situation given impacts from the outbreak of the novel coronavirus (COVID-19).

Q4

Will the structural transformation costs decrease to about 5 billion yen in FY2020 from the 10 billion yen you spent in FY2019?

A4

It will depend on the impacts from the outbreak of COVID-19, but we expect that it will not exceed 10 billion yen.

Q5

Will not the operating expenses of 9 billion yen, including the expenses of 4 billion yen as a result of the review of businesses with low profitability at everis’ new business creating divisions and the expenses of 5 billion yen accrued by the business for driving schools in Brazil, be generated anymore in FY2020?

A5

As it was a temporary expense, it will not be generated in FY2020.

Q6

For FY2020, what are you certain and uncertain about?

A6

NTT DATA earns more than 40% of net sales outside Japan. However, it is difficult for us to reasonably calculate and announce business performance forecasts at the moment because of the lockdowns that have been implemented for a while in North America and Europe.

Explaining the current status, we believe that the lockdowns have fewer impacts on the key businesses that support NTT DATA’s foundation. Specifically, large-scale systems and software development in Japan, such as the Public & Social Infrastructure Segment’s businesses related to systems for government ministries, and the Financial Segment’s businesses related to enterprise and payment systems. Also, outsourcing services and maintenance & support businesses such as ITO, AMO, and BPO projects inside and outside Japan will, in our view, be less affected as they are recurring businesses.

From the backlog totaling more than 2.6 trillion yen as of the end of FY2019, about 1.1 trillion yen will be recorded as net sales in FY2020. By combining net sales of traffic-type services, which are not recorded as new orders received, in FY2020 we will be able to secure about 55% of net sales recorded in FY2019. In addition, if we can secure net sales from IT investments necessary for clients' business promotion, maintenance of social infrastructures, and others, in FY2020, we will be able to secure 70%-80% of net sales of FY2019. However, there are many uncertainties about other businesses, specifically, new service projects, consulting businesses, and time & material (T&M) contracts outside Japan, for which we receive orders and record net sales within the current fiscal year. Our performance will be negatively affected if these projects are postponed or suspended. We will try to offset the negative impacts of postponed projects by winning more contracts, while the timing of resuming postponed projects significantly matters.

Backlogs for businesses outside Japan have also accumulated. Based on the net sales of FY2019, in FY2020, the North America Segment will secure about 70% and everis will secure more than 60%. Among NTT DATA EMEA companies, Germany will secure the 30% level of the previous year's net sales, which is relatively lower.

The outbreak of COVID-19 has highlighted a lot of social issues. For example, we have seen a wide variety of issues concerning online education and healthcare, teleworking and online conferences relevant to the work style reform, online banking, E-commerce, cashless payments, supply chains, public-private system collaboration, and others. For the world "after COVID-19," people around the globe are discussing "Building Back Better," an approach to create new lifestyles, new economic activities, and new social activities. NTT DATA with track records in building social infrastructures aims to contribute to the approach by utilizing digital technologies and IT.

Q7

How about new orders for businesses inside Japan that you received in the first quarter of FY2020? Have you seen a delay in receiving orders due to the outbreak of COVID-19?

A7

The outbreak has not affected businesses in Japan so much. Employees are working at home to execute operations and steadily dealing with existing projects. However, because it is difficult to negotiate with clients in person, new service projects and consulting businesses have already been slightly affected.

Q8

Please explain the COVID-19 outbreak's impacts on your business performance for FY2019 and the first quarter of FY2020, separately.

A8

Because the periods of lockdowns in North America and EMEA were not so long, the COVID-19 outbreak reduced the entire company's profit in FY2019 by about 1.5 billion yen. In April and May, negotiations about T&M projects and new projects have been affected in North America and EMEA & LATAM, but we have yet to scrutinize the impacts.

Q9

At the North America Segment, transfer of new orders received to net sales was delayed in FY2019. What kind of image should I have for FY2020?

A9

The North America Segment should have recorded increased net sales without impacts of the COVID-19 outbreak. The segment received new orders of more than 100 billion yen in each quarter of FY2019. In our view, its robust performance since the fourth quarter of the fiscal year ended March 31, 2019, will be gradually transferred to net sales. Looking at the details of the new orders, we find that many of them are for outsourcing-related projects, and it has taken some time for them to transfer to net sales. While net sales of FY2019 remained almost unchanged from the previous fiscal year due to effects of M&A and foreign exchange fluctuations, in FY2020, we expect that large-scale projects for which we received orders will generate net sales and we are almost confident about that. On the other hand, we are assessing the impacts of the COVID-19 outbreak.

Q10

How certain are you about net sales of recurring businesses of the North America Segment in FY2020?

A10

The North America Segment has accumulated backlogs, most of which are related to ITO, BPO, and others. We think that, in FY2020, backlogs as of the end of FY2019 will generate about 70% of net sales recorded in FY2019. We aim to make up for the remaining with consulting and new projects. However, we are assessing the prospect in consideration of the impacts of the COVID-19 outbreak.

Q11

Please explain more precisely the negative impacts of 1.5 billion yen on profit caused by the COVID-19 outbreak in the fourth quarter of FY2019.

A11

The negative impacts were caused mainly in North America and resulted in a decreased profit of 1.2 billion yen. This was because, due mainly to lockdowns, multiple consulting and T&M projects were canceled or postponed.